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Statement submitted by the International Council on Social Welfare, a non-governmental organization in general consultative status with the Economic and Social Council

Impact of the global financial crisis on social integration

The Secretary-General has received the following statement, which is being circulated in accordance with paragraphs 36 and 37 of Economic and Social Council resolution 1996/31.

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Statement

1. The facts are no longer in dispute, nor can they be ignored. The current financial and economic crisis has become a social development crisis. The crisis is impeding the global community's ability to meet the internationally agreed development goals and in particular the commitments made at the World Summit for Social Development, held in Copenhagen from 6 to 12 March 1995, of poverty eradication, full employment and social integration.

2. This, the worst financial crisis since the Great Depression, has converged with the food and fuel price fluctuations and looming climate change disasters to make it a triple threat to social development.

3. The traditional poor — those social groups that have long constituted the bottom strata of the income and occupational distribution — remain excluded. The global financial crisis has restricted even further their access to mainstream society, characterized by affordable access to quality social services such as basic education, health care, safe water and sanitation and housing.

4. There is an added tragedy. We are witnessing a rise in the number of new poor and excluded. The new poor have lost their jobs or income as a result of the current crisis. Those people had managed to climb above the poverty line, but have now tumbled back below and outside of mainstream society.

The numbers

5. The United Nations estimates that as many as 103 million more people will fall into poverty or fail to escape poverty because of the crisis, in effect excluding them from enjoying the benefits that development brings.

6. The International Labour Organization (ILO) has recently revised upwards its unemployment projections to levels ranging from 210 million to 239 million unemployed worldwide, as a result of this crisis. The numbers in vulnerable employment are even more staggering. In East Asia alone, there were about 12 times as many people in vulnerable employment as in unemployment. In South Asia, approximately 5 per cent of the labour force is unemployed, while nearly 15 times as many workers are employed, but in vulnerable employment. The crisis is hitting young people hard. The number of unemployed young people is expected to increase from 11 million in 2008 to 17 million in 2009.

Those affected

7. In developing countries as a whole, those most affected by recent job and income losses include:

- "Flexible"/migrant/undocumented foreign workforce
- Contract workers or overtime-dependent workers
- Retrenched workers at the lower occupational rungs
- Agricultural sector workers and owners of small agricultural holdings
- Manufacturing sector workers, unemployed graduates, new entrants and under-skilled workers

- The self-employed, especially those severely affected by the ripple effects arising from the economic slowdown or recessionary conditions

Impact

8. The rise in unemployment and vulnerable employment is threatening to exclude many more millions from hard-won social achievements, particularly education. Poor families are being forced to remove their children — often girls — from school and require them to work in the informal sector to supplement family income.

9. Reports have indicated that families in Africa and Asia are being forced to sell their productive assets such as land, livestock and beasts of burden, making them even more vulnerable and destitute. Reduced household consumption is likely to increase malnutrition, especially among children. This hinders child growth, affecting learning and cognitive abilities. The World Bank has reported that infant deaths in developing countries may be 200,000 to 400,000 per year higher on average between 2009 and the Millennium Development Goal target year of 2015. Another report estimates that the current crisis will lead to between 30,000 and 50,000 excess infant deaths.

Response

10. What should be the immediate and longer-term response? The answer lies in the fact that in this crisis, as in the previous one, the poor and excluded are disproportionately affected because they have weak coping mechanisms.

11. National responses, including subsidies that protect vital consumption items such as food and cooking fuel, are useful, immediate anti-crisis measures. Existing social assistance programmes such as labour-intensive public works and cash transfers can protect jobs and incomes in the short term. Social and infrastructure spending and other stimulus packages have proved useful in the short term.

12. But the soaring fuel and food prices of 2008 and the subsequent global financial crisis are unlikely to be unique. Pressures on natural resources, heightened by climate change effects and the ending of stimulus packages, will push commodity prices up when the global economy recovers.

13. A longer-term policy response is needed to avert the need to rely once again on ad hoc emergency measures, which can, in some cases, exacerbate rather than mitigate negative effects.

14. The current global crisis is not only jeopardizing the development gains made thus far, but is also forcing an expanded focus, from lifting people out of poverty to preventing people from falling into poverty. Poverty, unemployment, underemployment and vulnerable employment in themselves are forms of social exclusion.

Social protection floor

15. What is really needed is the development of comprehensive social protection systems that can be established before another crisis strikes.

16. Countries with a comprehensive and effective social protection system can strengthen social integration and promote national competitiveness. Social and

health services, central components of a social protection system, play a vital role in increasing social cohesion and alleviating the impact of financial and economic crises. A first step towards integrating people living in poverty is to meet their basic needs.

17. But there is not a unique prescribed way to build and strengthen social protection systems. The specific details of such systems will vary across countries depending on their specific needs, existing social infrastructure and vulnerability patterns, and their technical and fiscal capacity to administer different types of programmes. Despite differences in implementation, however, it should be possible to agree on a common goal. A desirable goal for social protection systems is to capture all the people who are socially vulnerable and provide them with minimum grant levels.

18. A minimum floor of social security benefits for all citizens should include:

- A universal guarantee of access to basic health services
- Guaranteed income security for all children through family and/or child benefits
- Guaranteed access to basic means-tested or self-targeted social assistance for the poor and the unemployed
- Guaranteed income security for people in old age and invalidity through basic pensions

19. In the context of social protection, the International Council on Social Welfare is supporting the social protection floor initiative. The lead agencies are ILO and the World Health Organization. Most, if not all, United Nations agencies and the World Bank support the initiative. It is a great step forward in implementing programmes that will alleviate poverty. The main elements of the initiative are:

- Essential services, i.e., geographical and financial access to essential services, including water and sanitation, adequate nutrition, health, education and housing
- Essential social transfers, i.e., social transfers in cash and kind paid to the poor and vulnerable to provide a minimum income and healthy security

20. Social safety nets such as cash or in-kind government transfers to the poor are often temporary but necessary measures. These transfers can be conditional — provisions to families or individuals as a reward for actions such as attending school, participating in public works or having a medical check-up. Or they can be unconditional transfers, which do not depend upon recipient's behaviour.

21. But these measures cannot replace longer-term social protection schemes that will protect vulnerable peoples from this crisis as well as the next.

Damaging responses

22. Most developing countries still do not provide adequate social protection for their citizens. As a result, millions are resorting to limited, often harmful, coping mechanisms, especially in times of crisis, such as reducing meals, eating less nutritious foods, taking children out of school, selling livestock and other assets or borrowing money to feed their families.

23. In the case of sudden spikes in the price of food, the poor have to spend an even larger proportion of their income on food and will probably buy less food or food that is less nutritious.

24. Worse still, some are voluntarily selling, or being forced to sell, their labour and bodies in the trafficking trade, or what we call "irregular migration". This happened in the aftermath of the 1997 crisis, and there are indications that the same thing is happening now, perhaps on a larger scale.

25. Episodes of soaring commodity prices will recur in future, especially when the current recession retreats and the money from stimulus packages runs out. Thus a better and longer-term policy response to protect the poor and vulnerable must be put in place.

National responses and consequences

26. National approaches in identifying poverty groups affected by the economic crisis will vary considerably, but all will need to take into account the key criterion of exclusion from productive resources, decent work and social security in terms of health, education, safe water and sanitation and housing, as well as extreme vulnerability to higher food and fuel costs.

27. Enhancing the coverage of social protection is not only a moral imperative but also good economics. In times of crisis and uncertainty about the future, people tend to increase their savings to protect themselves against the risk of losing their jobs or suffering a loss of income. When millions of individuals react in the same way, they cause the crisis to deepen by decreasing aggregate domestic demand. Thus a behaviour that is natural and rational at the individual level is detrimental to the economy at the aggregate level. To reduce this adverse macroeconomic implication, it is necessary to induce a change of behaviour at the individual level. Therefore, enhancing the coverage of social protection will help people and economies. By providing a basic level of income support, social protection schemes make individuals feel more secure and less inclined to increase their savings to protect themselves from possible income losses in times of crisis, contributing to domestic demand and macroeconomic stability.

Policy priorities

28. There are at least three key sets of concerns that affected countries should prioritize in policymaking and programming.

29. The first relates to the impact on poverty numbers and poverty levels. How many are affected? Who are they, and where are they to be found?

30. The second relates to the major ways in which the poor are affected by the crisis and the remedial measures that most benefit them. Countries need to ensure that stabilization or social protection assistance programmes for regions, sectors and communities are well designed and robust. They need to be free from political bias or other forms of distortion that would reduce their efficiency and impact. Social protection measures need to be free of leakage or bias and must not be undermined by high administrative costs.

31. The last set of concerns relates to the relationship between poverty, inequality and the larger political economy in the longer run. This set is more complex because

it relates to the stumbling blocks, political as well as economic, to the legal empowerment of the poor:

- How much priority should Governments give to issues of redistribution during a period of prolonged economic recession or crisis and/or when government revenues are sharply reduced?
- How to ensure that spatial, occupational and group disparities are more efficiently addressed so that rising poverty does not lead to the destabilization of the economy or society

Conclusion

32. Finally, this is a global problem, and we need global and local solutions for the localized problems millions are experiencing. At the global level, donor Governments, from many of whose countries the current crisis originated, have more reasons now to keep their commitments to assist developing countries in the South. At the national and local levels, especially in the South, Governments must take this crisis as yet another opportunity to put in place comprehensive social protection systems for its peoples because it is the moral and economically right thing to do.